MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BCS4614 – GOODS AND SERVICES TAX

(All sections / Groups)

22 October 2016
9.00 am – 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 (nine) pages (including the cover page) with 5 Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

4. Take note of the following matters in respect of the question paper:

   (i) GST refers to goods and services tax under the Goods and Services Tax Act 2014 (as amended).
   (ii) RMC refers to the Royal Malaysian Customs.
   (iii) All reference to sections is to the Goods and Services Tax Act 2014 (as amended) unless otherwise specified.

QUESTION 1 (20 marks)

(a) The Goods and Services Tax Act 2014 (as amended) [Act 732] was implemented in Malaysia with effect from 1 April 2015.

Required:
Explain briefly the basic principles of the Goods and Services Tax Act 2014 (as amended).

(5 marks)

(b) Under the Goods and Services Tax Act 2014 (as amended), there are several types of supply.

Required:
Explain what do you understand by the following type of supply, and give an example of each:

(i) Zero rated supply; and
(ii) Exempt supply

(2 ½ marks each x 2 = 5 marks)

(c) Certain supplies are treated as 'Out of Scope' supplies under the Goods and Services Tax Act 2014 (as amended).

Required:
Explain what is an 'Out of Scope' supply under the Goods and Services Tax Act 2014 (as amended), giving five (5) examples of such supplies, and explain its implication for GST purposes.

(5 marks)

(d) Puan Ros is the sole proprietor of the business 'Ros Furnishing Enterprise'('the business') selling household furnishings and electrical goods for many years. In early August 2016, Ros bought a condominium in Bangi. In late August 2016, she withdrew a living room set ('the set') from the business to furnish the condominium. The set was originally bought in the previous year as a trading stock for RM 21,200 inclusive of GST, but has not been sold for some time now, and is getting out of fashion. The current open market value of the set is estimated to be only RM12,000. Puan Ros is a GST registered person on a quarterly taxable period.

Required:

(i) In the context of the Goods and Services Tax Act 2014 (as amended) explain the nature of the supply made by Puan Ros.
(ii) Determine the period when liability to GST arises, the amount of GST due (if any), and when the output tax should be accounted for to the RMC?

(5 marks)

[Total marks: 20]

Continued ...

QUESTION 2 (20 marks)

(a) Under section 9((2) of the Goods and Services Tax Act 2014 (as amended):

'...tax shall be charged on any supply of goods or services made in Malaysia where it is a taxable supply made by a taxable person in the course or furtherance of any business carried on by him'.

Required:

(i) Explain briefly the meaning of 'business' in the context of section 3 and section 9 of the Goods and Services Tax Act 2014 (as amended);

(2 marks)

(ii) Indicate three (3) activities which are deemed to be the 'carrying on of a business' under the provision of the said sections.

(3marks)
(Total: 5 marks)

(b) Section 11 of the Goods and Services Tax Act 2014 (as amended) provides for the determination of the time of supply of goods or services.

Required:

(i) What is the tax point for the supply of goods?
(ii) What is the tax point for the supply of services?

(2 marks each x 2 = 4 marks)

(c) Ahmad is a GST registered businessman on a monthly taxable period, carrying on the business of selling household electrical and electronic products. He placed an order for 20 flat screen television sets with the Sanyo Electrical Company Sdn Bhd ('Sanyo') on 20 July 2016. He paid a deposit of RM8,480 for the order and Sanyo issued a tax invoice for the payment on the same day. Sanyo then delivered the television sets on 5 August 2016 and immediately issued a tax invoice for RM76,320 (inclusive of GST) being the balance of the purchase price of the televisions sets. Ahmad settled the amount owing to Sanyo the following day. Sanyo is a GST registered person and is on a monthly taxable period.

Required:

(i) What is the time of supply for the Sanyo in respect of the supply of the television sets?

(2 marks)

(ii) When should Sanyo account for the output tax to the RMC?

(2 marks)

(iii) Would your answer be different if Sanyo Electrical Company Sdn Bhd issued the tax invoice for RM84,800 on 20 July 2016? Explain the reason for your answer.

(2 marks)
(Total: 6 marks)

Continued ...

(d) Rani & Lim Associates is a legal firm ('the firm') that was engaged by a client, James Trading Enterprise ('the client') to provide legal advice on a proposed contract for supply of drilling materials to an oil exploration company. The services are to be provided over a period of five months commencing from July 2016. The firm agreed to provide the services for a fee of RM53,000 inclusive of GST. The firm is a GST registered person on a monthly taxable period.

Required:

With reference to the Goods and Services Tax Act 2014 (as amended) determine the time of supply by the legal firm in the following instances:

(i) The legal firm issued a tax invoice for the sum of RM53,000 on 1 July 2016 but no payments were received from the client;

(1 marks)

(ii) The client paid an advance of RM20,000 on 1 July 2016 upon receiving the tax invoice, and made arrangement to settle the balance of the RM33,000 (inclusive of GST) on 30 November 2016;

(2 marks)

(iii) The legal firm issued the tax invoice for the sum of RM53,000 on 30 November 2016 upon receiving the full payment.

(2 marks)

(Total: 5 marks)

[Total marks: 20]

QUESTION 3 (20 marks)

(a) Under the provisions of the Goods and Services Tax Act 2014 (as amended), a person must register to be a taxable person and this requirement is mandatory in certain instances.

Required:
Explain briefly when is a person required to be registered mandatorily in the context of section 20 and the GST (Amount of Taxable Supply) Order 2014.

(4 marks)

(b) A person may not be required to register for GST purposes, but do registering as a taxable person does have some benefits.

Required:

Discuss four (4) benefits available to a person who registers for GST purposes.

(4 marks)

Continued ...

(c) Madam Dianna is a proprietor of a sundry shop in Bangi trading under the style of 'Dianna Cash and Carry' and has an annual turnover of RM210,000 as at 30 June 2016. Madam Dianna also operates a restaurant under the trade name of 'Kedai Makan Siam' that serves mainly Thai dishes. The restaurant is very popular with the locals and has an annual turnover of RM200,000 as at 30 June 2016. On 10 June 2016, Madam Dianna was awarded a two years contract to supply food to the hostel at the Multimedia University in Cyberjaya. The contract is worth RM100,000 per annum.

Required:

(i) Explain whether Madam Dianna should register as a taxable person for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(2 marks)

(ii) Assuming that she is required to register, when should she register herself for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(2 marks)

(iii) Under the Goods and Services Tax Act 2014 (as amended) when would Madam Dianna effectively become a taxable person?

(2 marks)
(Total: 6 marks)

(d) Ah Long Construction Sdn Bhd ('the company') is a Malaysian incorporated company and carries out infrastructure related works. The company holds 60% shares in a transport company and 45% shares in a company that supplies cement. All the three companies close the accounts to 30 September each year. The companies have substantial inter-company transactions. An accounts clerk told the managing director of the company, one Mr. Ah Long, that it would be helpful if the three companies are registered as a group. Mr. Ah Long is not very educated and also does not trust the clerk. He has instead approached you for advice.

Required

(i) Advise Mr. Ah Long whether the three companies could register as a group for the purposes of the Goods and Services Tax Act 2014 (as amended)?

(4 marks)

(ii) Explain to Mr. Ah Long the obligation of a group under Goods and Services Tax Act 2014 (as amended) and the benefits that the group could obtain from such a registration.

(2 marks)
(Total: 6 marks)
[Total marks: 20]

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Continued ...

QUESTION 4 (20 marks)

(a) Anu Management Corporation Sdn Bhd ('the company') is a Malaysian company and since October 2015, has been registered as a taxable person for the purposes of the Goods and Services Act 2014 (as amended). It is on a quarterly taxable period and deals with suppliers and customers who are GST registered persons. Business has been slow and the company was persuaded by its book keeper to change from the accrual system to the cash system. Accordingly, the company applied to the Director General of Customs to change the system. Official approval to change to the cash system was obtained on 1 July 2016. The company's debtor and creditor balance as at that date were as follows:

Balance as at 1 July 2016	RM
Creditor balance	260,000
Debtor balance	210,000

Required

(i) Based on the information provided, make the necessary adjustments to show the GST liability of the company upon the approval for the change of the accounting system to the cash basis assuming there are no other transactions during the relevant taxable period.

(2 marks)

(ii) Discuss whether the change has been beneficial to the company and express your opinion on the action of the company to covert to the cash system of accounting.

(3 marks)
(Total: 5 marks)

(b) With reference to the Goods and Services Act 2015 (as amended), what do you understand by the *'De Minimis Rule'*, and explain the circumstance when it could be applied by a taxable person?

(5 marks)

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Continued ...

(c) Rakesh Sdn Bhd is on a quarterly taxable period and for the period July 2016 - September 2016, it has furnished you the following information:

Type of supply (quarterly taxable period)	Value of supply (RM)	Input tax incurred (RM)
Standard rated supply	169,000	7,380
Zero rated supply	125,000	1,230
Exempt supply	14,000	24,600
Residual input tax		4,920
Total	**308,000**	**38,130**

Required:

Determine whether Rakesh Sdn Bhd is able to claim the full input tax credit in respect of its exempt supply for the said taxable period July 2016 – September 2016, indicating your computation to arrive at your decision.

(5 marks)

(d) Rita & Co is a local firm ('the firm) and is a GST registered person on a monthly taxable period. The firm acquired a machine from Power Machines Sdn Bhd for RM400,000 (inclusive of GST). The vendor raised a tax invoice on 12 January 2016, and the firm claimed input tax credit of RM22,641.48 in the taxable period January 2016. The firm arranged to make payments in four equal monthly instalments of RM100,000 each. However owing to cash flow constraints, the actual payments made were as follows:

Date of payment	Amount (RM)
12-Jan-2016	100,000
12-May-2016	100,000
12-Aug-2016	100,000
12-Nov-2016	100,000
Total payments made	**400,000**

Required:

For the purposes of section 38 of the Goods and Services Tax Act 2014 (as amended) indicate the GST adjustments that Rita & Co has to make in respect of the input tax credit and output tax payable to the RMC for the relevant taxable period in respect of the payments made to Power Machines Sdn Bhd.

(5 marks)

[Total marks: 20]

Continued ...

QUESTION 5 (20 marks)

(a) With reference to section 39 read with section 177(2)(h) of the Goods and Services Tax Act 2014 (as amended) and Regulations 58-59 of the Goods and Services Tax Regulations 2014 P.U.(A) 190/2014, explain briefly what you understand by 'Capital Goods Adjustments', and explain why is this adjustment necessary?

(4 marks)

(b) The following business transactions took place between Fatin Enterprise (the supplier) and Vani Enterprise (the recipient):

(i) Transaction 1: Fatin Enterprise supplied goods to Vani Enterprise and issued a tax invoice for RM15,900 (inclusive of GST RM900) on 15 April 2016. Upon receipt of the supply Vani Enterprise discovered that 20% of the goods are sub-standard. The recipient was willing to accept the goods if the supplier could issue a credit note for a sum of RM3,180 (inclusive of GST RM180). This was agreed to by Fatin Enterprise and a credit note was issued on 30 April 2016. Vani Enterprise settled the balance of RM12,720 inclusive of the GST on 10 June 2016.

(ii) Transaction 2: Fatin Enterprise delivered a supply of goods to Vani Enterprise on 26 April 2016, and issued a tax invoice for RM21,200 (inclusive of GST RM1,200) on a 60 day credit terms but offered a cash discount of 2% if payment is made within 15 days of the supply. Vani managed to make the full payment of RM20,776 (after the discount) on 5 May 2016 and Fatin Enterprise issued a credit note for RM424 (inclusive of RM24 GST) on 10 May 2016.

Both the businesses are GST registered taxable persons on a monthly taxable period.

Required:

With reference to the Goods and Services Tax Act 2014 (as amended) and Regulation 25 of the Goods and Services Tax Regulations 2014 P.U.(A) 190/2014, indicate the value of the supply and acquisition, the output tax and the input tax credit for the relevant taxable period in respect of the supplier Fatin Enterprise and the recipient, Vani Enterprise including your explanation of the adjustment arising from the issue of the credit notes.

(8 marks)

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Continued ...

(c) Renuka Development Sdn Bhd ('the company') is a mixed supplier. It acquired a machine for RM8 million. The supplier raised a tax invoice in May 2016 for RM8 million inclusive of GST RM480,000. The company has estimated that its residual input tax recovery rate for the next five (5) years would be as follows:

Interval	Annual residual input tax credit recovery rate (%)
First	60
Second	65
Third	40
Fourth	80
Fifth	70

Required:

With reference to the Goods and Services Tax Act 2014 (as amended) and Regulation 58-59 of the Goods and Services Tax Regulations 2014 P.U.(A) 190/2014, make the necessary capital goods adjustment indicating the following:

(i) the respective year in relation to the interval applicable;
(2 marks)

(ii) the input tax credit that could be claimed for the first interval; and
(1 marks)

(iii) the GST adjustment to be made in the second interval onwards
(5 marks)

(Total: 8 marks)

[Total marks: 20]

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